C4673-1

THE MAGAZINE FOR GROWING COMPANIES

'Honest Business': Take the INC. Ethics Survey
SEE PAGE 65

JAN. 1990
$3.00

THE ENTREPRENEUR OF THE YEAR

And the Winner Is . . .

SEE PAGE 42

Anatomy of a Start-up: Broadcast News
SEE PAGE 70

Plus: Managing People, Customer Service, Sales Management and more

460541 450 0WCSRI90 0140
CONG INFO SERV COMPLIMENTARY
SRI ACQUISITION E290
4500 E WEST HWY
BETHESDA MD 20814 ◆AU
◆1449FXXXXXXXXXXXALL FOR STATE
◆4500WCSRI93◆

01
02749
0 884265 7

CONTENTS

FEATURES

31 FACE-TO-FACE
Letter to the Editor
A 'typical' reader, Joline Godfrey, sets the magazine straight on women, entrepreneurship, and role models for the 1990s

42 **The Entrepreneur of the Year** *BY TOM RICHMAN*
Announcing the winners of INC.'s first national company-building achievement awards

65 INC. SURVEY
Honest Business *BY JOHN CASE*
We present four stories that capture some of the dilemmas of starting a business, involving tough questions of right and wrong. What would you do?

70 ANATOMY OF A START-UP
Broadcast News *BY JILL ANDRESKY FRASER*
Can positioning yourself as the low-cost producer work in television broadcasting?

78 **Managing the New Work Force** *BY MARTHA E. MANGELSDORF*
Ben Strohecker knows what it takes to keep his employees happy—and it's not cash

COLUMNS

28 **Policy:** The Skills Crisis. *BY JOEL KOTKIN*
Strapped by a shortage of skilled industrial workers—and Washington's inaction—companies are taking training into their own hands

108 **Marketing:** For You, Our Valued Customer. *BY PAUL B. BROWN*
Customer service is becoming all the rage. But is it more than smiles and warm fuzzy feelings?

111 **Finance:** Plans to Grow By. *BY JILL ANDRESKY FRASER*
Planning doesn't have to mean pie charts, equations, and reams of paper. It does mean asking the right questions

114 **Managing People:** Owner's Rights. *BY BRUCE G. POSNER*
How to give key employees a stake in the company without giving up any control

117 **International Sales:** Too Close for Comfort. *BY JOSHUA HYATT*
How to keep your foreign distributor from becoming your competitor

DEPARTMENTS

12 **FYI:** The story behind the first national entrepreneur of the year awards

16 **Letters:** Readers write about sharing financials, liability insurance, and other matters; Focus on business responsibility

21 **Network:** Readers offer advice about import/export, sales commissions, raising capital, and marketing a new product

24 **Insider:** Office politics; adventure capital; the NFL doghouse; Hotline; New Businesses

104 **Hands On:** Tips on marketing, public relations, selling, customer service, and how to save money on modems

120 **How To:** Manage Your Sales Force. *BY ROBERT A. MAMIS*

143 **Investing in Growth Companies/Street Talk:** The drop in defense stocks

INC. COVER STORY

42 The Entrepreneur of the Year
Yet to see his 25th birthday

31 Joline Godfrey
On women and entrepreneurship

78 Harbor Sweets
Managing the new work force

COVER PHOTOGRAPH
by
Lou Jones

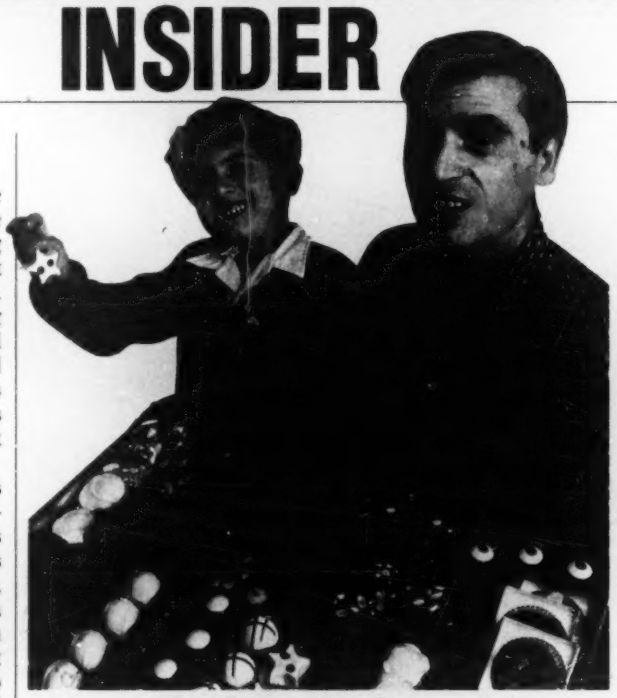
INSIDER

SOUR NOTES

When we last wrote about Santi Falcone ("Piano Man," January 1987), his Falcone Piano Co. was four years old and riding high on its reputation as one of the finest young manufacturers of handcrafted pianos. Today, the Haverhill, Mass., plant is putting out 10 to 12 pianos each month. But Santi Falcone—technician, designer, and builder—is no longer there. Instead, he's making and selling chocolates from his home, reflecting on how it was that he got pushed out of his own company.

What it comes down to, predictably, is cash flow. Falcone Piano was never profitable, and by early 1989 had run into serious money problems. One of the company's backers was amateur pianist Bud Greer, who had read the INC. article, bought a Falcone, and promptly invested $1.5 million for a 50% interest. When the company hit the wall last year, Greer offered to put up working capital in exchange for increased ownership. By early April he had purchased the remaining 50% of the company's stock, and Santi Falcone had resigned.

Falcone says he surrendered his stock believing no management changes would be made—and was immediately offered a demotion to marketing and product development. Says current president Jerry Keppler, "Santi was a great PR person, but running a company was not his forte." Greer's investment company tapped Lloyd Meyer, a former president of Steinway & Sons, to be Falcone's COO.



CLARK QUIN

Santi Falcone, with son Dante
An investor stopped playing his song

"It's sad, more than anything else," says Falcone today. "I don't see how Greer thinks he can produce Falcone pianos without me. It doesn't make sense." For now, he and his wife and sister are making chocolates in their new cottage industry, Dante Confections. The business, he says, is profitable. Greer's company has gone on to acquire Sohmer Corp., an old-line manufacturer of high- and midpriced pianos under the Sohmer and Mason & Hamlin names. The plan is to do some of the manufacturing in the Haverhill plant, next to the Falcones. Meanwhile, Santi Falcone says that by February, he'll make a final decision on whether to start a new piano company. *—Leslie Brokaw*

OUT OF THE DOGHOUSE

If you happened to catch "Monday Night Football" on October 23, you may have spotted a huge orange football helmet sitting just behind the visitors' bench. That was actually the official NFL doghouse. And just how did the NFL wind up with a doghouse? There hangs a tale.

The Helmut Hut, as it's known, is the creation of Domation Inc., an INC. 500 company in Columbus, Ga. Founders Rick Marshall and Randy Marshall (who aren't related) never intended to be in the doghouse business. Domation makes polyurethane roofs for commercial and industrial buildings, as well as some domes. To introduce people to the virtues of domed structures, the Marshalls built a small model and displayed it at a local exposition in 1985. It generated scant interest, except among children. Several people suggested Domation get into playhouses and doghouses. "We kind of laughed," says Randy.

JACK VAN ANTWERP

The Browns' Helmut Hut
Monday night special

By 1988, however, Domation was test-marketing prototypes of dog domes. Someone noted that they looked like giant football helmets. Why not paint one in the colors of the University of Georgia Bulldogs? The Marshalls did, and it was selected as a prize for an alumni event. Then, last June, Randy happened to show a photo of the helmet doghouse to a man from Cleveland, who suggested he take the idea to the Cleveland Browns. After all, how many teams have a "dog-pound cheering section" where fans sit and bark?

Within a few weeks Domation had a deal with the Browns, a Cleveland radio station, and a dog-food company to sponsor the Cleveland Browns Honorary Mascot program. Then the NFL decided to feature the Helmut Hut in a special pet catalog it's bringing out. Domation now expects to sell about 8,000 Helmut Huts in 1990 (at $199 each). As for those energy-efficient full-size modular prefabricated domes, the Marshalls are hoping to have them in production by 1998. *—Bruce G. Posner*

ADVENTURE CAPITAL

Why do people sink money into start-ups? Here's what 473 investors said in a recent survey, conducted by University of Tennessee College of Business associate director Pat Postma.

SCOTT MACNEIL

HONEST BUSINESS

The four stories on the following pages capture some of the dilemmas of starting a business, involving tough questions of right and wrong. What would you do?

BY JOHN CASE

The discussion here at INC. that morning got a little heated—which is why we're inviting you to test your ethical judgments against those of other businesspeople all around the country.

The connection? Let me explain. Several months ago, eight of this magazine's editors gathered around the big oak conference table for a critical assessment of the previous month's issue. When the discussion turned to an article called "Supply-Side Financing" (February 1989)—well, that's when a few voices were raised.

"It's just wrong," said one editor. "Bad business and lousy ethics. How can we appear to be condoning it?"

"It" was the story of Dennis Chang, president and chief executive of Jasmine Technologies Inc., in San Francisco. Strapped for cash in his company's early days, Chang had paid his suppliers as little as he possibly could. But what really galled the protesting editor was Chang's pledge of personal guarantees well beyond his net worth. "The first guarantee devalues all subsequent guarantees," wrote author Ellyn E. Spragins, "but your suppliers don't know that."

The debate raged, the idealists among the editors charging Chang with unethical behavior, and the realists accusing the idealists of terminal naïveté. ("If nobody stretched their creditors, nobody would ever get a business started.") By May a chorus of letter writers had joined in. "What happened to the days when an individual's word meant something?" asked one. "You've provided an outline for larceny," charged another. Author Spragins was unapologetic: "Supplier finance is no more inherently unethical than any other business practice," she retorted. Chang himself argued in a later letter that he had built personal relationships with his vendors, getting credit "openly and honestly." Of course, there were risks—"but isn't that the nature of being in business?"

Somehow I doubt we'll ever resolve this dispute to everyone's satisfaction. But it got us thinking: despite all the hoopla over business ethics, no one has paid much attention to the choices entrepreneurs must make every day. If you leave one company to start another, is it OK to take a co-worker with you? What about luring away a customer? When you're borrowing money, how much do you have to tell your lender? And—remembering Dennis Chang—what are your obligations to your suppliers?

As they say on late-night TV, wait! Don't answer yet.

Instead, take this little test. Read the vignettes on the following pages about a fictitious company *you* are starting. Figure out what you'd do in the situation outlined, and check the appropriate box.

Then turn the page. Not for the "right" answers, because we don't think there are any. Instead, you'll see who agrees with you.

A few months ago we sent this same questionnaire to a sampling of INC. readers. Several hundred responded, not only with checkmarks but with strong opinions and stories of similar situations they had lived through. Compare your own responses with theirs—and if you don't think theirs are on the money, let us know (see box).

Ready? Here's the background:

THE STORY

You've been involved with computers all your working life. Five years ago Rob Firman asked you to join his new data-processing company; today you're a sales manager in Firman's 20-person shop. But you really want to start your own data-processing business, and for the past few months you've spent your evenings doing spreadsheets, developing customer lists, and otherwise mapping out the new venture. Firman knows nothing about your plans. You'll tell him as soon as you're ready to give notice.

In the meantime, you continue to put in a hard day's work. But now and then a difficult situation comes up. . . .

LET US KNOW WHAT YOU THINK!

Have something to say—about any of these vignettes, about your own experiences, or about business ethics in general? Let us hear from you, and we'll try to continue the debate. Write a letter to INC. ETHICS, 38 Commercial Wharf, Boston MA 02110. Or call us on our letters phone line and talk into our answering machine. The number is (800) 444-1756.

How the survey was conducted. **A few months ago we sent the INC. Business Ethics survey to a random sample of 5,000 subscribers across the country. A total of 388 readers replied, for a response rate of 7.8%. The first 337 responses were tabulated by computer to give the answer percentages reported on pages 68 and 69. Except for minor editing, the situations described in this article are as they appeared in the survey.**

Many thanks to those who took the time to fill out the questionnaire. One professor of business communications even asked her students to take the survey; though the results arrived too late to be included in this report, we'll try to report them in a future issue.

PHOTOGRAPHS: WEBB CHAPPELL

THE KEY EMPLOYEE

It's 5:30, and there's a knock on your office door. Quickly you rehearse your pitch one last time, even as you're calling for Lowrey to come in. The programmer enters and sits down, grinning.

"Did you hear?" he asks. "Seems the boss wants me to put on a tie and begin acting like an executive."

You congratulate him, but the doubt once more flickers across your mind. The start-up you're planning needs Lowrey. He's the quickest technical guy you've ever met. He has an incredible knack for making clients feel at ease. And more than once he's told you he'd like to be involved in a new venture someday.

If it weren't for Firman, you'd offer him a job right now.

Face it, you think, Firman put you where you are today. He not only hired you and trained you, he gave you more responsibility than you were ready for, confident that you'd grow into it. And you have—so quickly that now you're chafing under his sometimes-arrogant authority. When you leave, Firman may feel betrayed. But you steel yourself against the remorse. That's business. Firman is a big boy.

But what about Lowrey? Just last week Firman told you his hopes for the young man. He talked of broadening Lowrey's responsibilities, of eventually bringing him into management. Just the guy I need, he said, to help me take this company past $2 million.

You look again at Lowrey, sitting in your office, smiling to himself. You know he's essential to Firman's plans. But you also know where his long-term hopes lie, and that he'll take a job with your start-up if you offer one. You even think that Firman, if he weren't personally involved, would encourage you. "A man has to look out for himself," he likes to say.

WHAT DO YOU DO?

_____ OFFER LOWREY A JOB.
He's the one who'll be making the choice, after all. Firman can take care of himself.

_____ QUIT THINKING ABOUT THE START-UP
until you leave your job. You shouldn't be doing it on Firman's payroll.

_____ BITE YOUR TONGUE.
It's OK to keep planning the start-up, but don't mention it to Lowrey until you've left.

THE CUSTOMER

Lisa Meggett sips her coffee, leaving her words hanging. You bite off some bread, trying to chew slowly and think fast.

Meggett is managing partner of a consulting firm, one of Firman's customers, and you've been handling the account. Today you've asked her to lunch, ostensibly to discuss her longer-term data-processing needs. In fact, you want a chance to talk up your new company. You figure you can offer her the same services she's getting from Firman, only for 30% less. And now she has left an opening you could drive a minicomputer through.

"I'm afraid I have bad news," she had said. "I hope you won't take it personally, because I've always enjoyed working with you. But computers are so cheap now, we're planning on bringing our data processing in-house. We should save 20% over what we're paying you. Unless you can match that I'll have to close our account."

Give me a break, you think—not only can I beat it, I can show her exactly where her figures are wrong. She hasn't counted the cost of hiring, training, and keeping busy the new people she'll have to bring in. She hasn't counted overhead. The sales pitch is a no-brainer, and Meggett's firm could be a big customer for your planned new company. But that's not what's troubling you.

You were just leaving for lunch today when Firman came in. He was edgy. "Listen," he told you, "don't take any bull from these people. I play golf with one of the partners over there, and he's been going on about buying this new computer. I bet you hear all about their big in-house plans and how much money they'll save.

"My attitude is, let 'em go. They'll find out it's not so easy, and they'll come crawling back to us. This isn't tiddledywinks we're playing here. If that's their plan, say so long and wish them well."

Now, back at the restaurant, Meggett looks up, awaiting your response. You can take Firman's approach, even though (you can't help thinking) it amounts to shafting the customer. Or you can make your own pitch, offering Meggett the best deal she'll get and maybe landing your first account.

WHAT DO YOU DO?

_____ DO AS FIRMAN SAYS.
You're on his payroll, after all.

_____ MAKE YOUR PITCH.
Serving the customer better is what business is all about.

_____ HAVE AN OPEN-ENDED DISCUSSION.
Make your pitch after you've left your job.

AND NOW . . .

You've made the big move, leaving Firman and starting up a brand-new business. But you find that the dilemmas are still with you. . . .

THE BANKER

Driving back to the office—*your* office, you think proudly, with your five-month-old company finally moved in—you review the events of the past few hours.

What a meeting! The sales pitch you had so carefully prepared was scarcely necessary—it was as if the customer had long since decided to sign the contract. The amazing part was, he also wanted you to take on all his affiliated offices. Now, as you drive, the wheels are spinning in your mind. You'll need several new programmers and a couple of support people. You'll need new machines and more space.

The tricky part, you realize, will be handling Norton at the bank.

So far, Norton has been everything an entrepreneur could ask for in a banker. Conservative, sure—he's a banker, isn't he?—but nevertheless helpful. He arranged a modest line of credit secured by some of your hardware, and you are already into him for $25,000 or so. What's keeping him happy, of course, is your hefty cash balance and your prompt payment record. This move will change all that. You'll have to drain your cash, hurrying up your receivables and stretching your payables from now until summer if possible. You'll have to utilize Norton's line to the fullest.

Braking at a light, you realize your excitement is tinged with frustration. If you're straight with Norton—if you tell him everything you're planning—he'll tell you you can't handle that much growth, that you're crazy to be taking on so much new work so soon. He'll tell you that your debt will be too high and your cash too low. He might even say he's going to have to cut back your credit line—exactly what you can't afford.

On the other hand, you think: it's not his company. His loan is secured by the equipment. And there's no reason you have to tell him everything you're doing; you won't even be audited for another seven months, and by then you should be making money. You are, after all, in business to grow—and you've got one big opportunity to do just that.

WHAT DO YOU DO?

_____ COME CLEAN TO NORTON.
Try to convince him you can handle the growth. If you can't, don't accept the new job.

_____ KEEP QUIET.
Tell Norton as little as possible. Take the new job, manage the cash carefully.

_____ COMPROMISE.
Tell Norton little but admit to yourself he has a point. Take the new job but look hard for more investment capital.

THE SUPPLIER

That's him now, you think, as you look out your office window and see Dick Wilson getting out of his car. You know Wilson a little; you've even played golf with him a couple of times. So it was natural to call him. In any event, he represents the best office-furnishings company in town, and you suddenly have several new offices to outfit. He enters your office, sticking out a meaty hand.

"Thanks for coming out, Dick," you say. "Here—let's take a little stroll and you can see the space we're talking about."

Walking through the vacant rooms, you know you've got him where you want him. You did business with Wilson's company at the beginning, paying them promptly with your start-up capital. When they run their credit check they'll learn you have plenty of cash left and a good payment record. No reason for them not to cooperate on this one—ship the furniture and equipment out, bill you 30 days, not even pick up the phone until 45 or 60 days.

Granted, they don't know what you're planning. They don't know that the rooms Wilson's measuring will soon be occupied by several expensive programmers and several expensive machines. Or that the cash drain on your company will be severe. In the end, you calculate, it'll be roughly six months before Wilson's company gets all its money. You'll send them just enough to show your good faith—and to keep the moving trucks away from the door.

Now, talking with Wilson back in your office, you consider telling him the whole situation. Would it scotch the deal? Maybe, and then you'd be left with a bunch of unfurnished offices and the word out that you were short of cash. On the other hand, who's hurt if you say nothing? Wilson's company will get its money eventually, and you'll be ready for the new business you're taking on. Even in the worst situation, all they need to do is come get their furniture.

WHAT DO YOU DO?

_____ TELL WILSON
all your plans. If he backs out, find another supplier.

_____ KEEP MUM.
Credit is his company's problem, not yours.

_____ POSTPONE.
Don't contract for more furnishings until you can afford them, even if that means postponing the planned expansion.

THE KEY EMPLOYEE

What the Respondents Said

12%	OFFER LOWREY A JOB
6%	QUIT THINKING ABOUT THE START-UP
82%	BITE YOUR TONGUE

IN THEIR OWN WORDS . . .

- "Make the offer! Employers must compete for employees as well as for customers."
- "Making a low-key offer to Lowrey isn't 'stealing' him. But let Firman know your plans."
- "I offered the job while I was still employed. It was a mistake. The person didn't go in with me, and it could have ended up in a costly lawsuit."
- "Not offering the job is unfair to Lowrey. But be honest with Firman. He was once involved in a start-up—remind him of that."
- "Until your plans are definite you're risking your career—and Lowrey's. It's not a done deal until you're out."
- "I encounter this as 'Firman.' I encourage workers with entrepreneurial leanings to discuss things with me. Maybe we can help them get started so both of us benefit."
- "Quit thinking about it! Give your best to one thing at a time."
- "I've been on Firman's side of the issue and didn't like what my colleague did."
- "Congratulate Lowrey, but hint that someday you want to have your own company. Don't say when."

IN REAL LIFE

On the spot: Andy Friesch, founder, Heartland Adhesives & Coatings Inc., Germantown, Wis.

Friesch was a top sales producer for a $100-million-plus company in the industrial adhesives industry. But he felt that his opportunities were limited there, the company was "underutilizing what I was best at," and anyway he had dreams of going out on his own. Two of his co-workers, one in marketing and one in the technical end, seemed like prime candidates to help him get started.

What he decided: In Friesch's mind, there was no question. "I asked them to join me. Some people think I'm a rebel on this, but so long as you don't violate a noncompete agreement you have to look out for yourself first. I said, look, I'm not twisting your arm; if you want to stay here I respect that. But I have a vision and I want to follow it.

"I don't want to give the impression I'm not a loyal person. But when it comes to corporate America, individuals have to do what's in their own best interest. Corporations look out for themselves first and employees second."

The upshot: No one came. "They were willing to talk about going off with me, but when it came right down to it they didn't want to make the sacrifice." Were there hard feelings when he left? "Not from my peers. My superiors—I don't think they like what I've done, or what it says about their company."

THE CUSTOMER

What the Respondents Said

12%	DO AS FIRMAN SAYS
22%	MAKE YOUR OWN PITCH
66%	HAVE AN OPEN-ENDED DISCUSSION

IN THEIR OWN WORDS . . .

- "Do as Firman says. But set up an unofficial meeting and make your pitch."
- "Tell Meggett here's what Firman says—but then tell her you're starting up and can save her both headaches and money."
- "Make your pitch. Firman has lost the concept of customer service."
- "If Firman won't serve the customer, I certainly will."
- "When I realized my boss really didn't care, I went back to the customer and made my pitch without the boss's knowledge. At that point it was none of his business."
- "Don't try it. One of our salesmen left and took some of our accounts. We sued him and won."
- "If you're still taking Firman's money you have to do your best for him."
- "While on the payroll you must represent the firm or tell the boss why not."
- "Regardless of Firman's directions, he'll really be upset if *you* lose the account."
- "In a similar situation, I quit almost immediately and landed the account."

IN REAL LIFE

On the spot: John G. McCurdy, founder of Sunny States Seafood, Oxford, Miss.

Working for another Mississippi seafood distributor, McCurdy was furious with his boss. On paper they were partners, though McCurdy's 8% interest paled beside the other man's 92%. But it seemed to McCurdy that he was doing all the work while the other fellow took home the money—and ordered him around besides. So McCurdy decided to go out on his own. Hearing of his decision, several customers asked to go with him; some even called him up after he had established his own company, asking to do business.

What he decided: "I wanted to do anything I could to close that company and put him on welfare. But taking accounts just wasn't the right thing to do. I'm only 24 years old, I've got another 40 years left in business, and if I do somebody like that, somebody's going to do me like that. I don't live by the Golden Rule all the time, but that time I did."

The upshot: McCurdy is succeeding, and has recently opened up a franchised store in Tupelo. His former employer: pfffft. "He got into debt and had to sell out to a big catfish company."

THE BANKER

What the Respondents Said

44%	COME CLEAN TO NORTON
30%	KEEP QUIET, TELL NORTON LITTLE
26%	COMPROMISE, SAY LITTLE BUT LOOK FOR INVESTMENT

IN THEIR OWN WORDS . . .

- "Banks don't like surprises. Norton's an entrepreneur's dream—don't blow it!"
- "Convince Norton you can handle it. If he disagrees, take it to another bank for evaluation."
- "I'd keep quiet. Growth is my business, banking my banker's."
- "Bankers haven't the foggiest idea how to run a company. Tell them only what they require."
- "Without my bank I'm out of business. So I don't do anything to test the relationship."
- "I'd ask Norton to come to lunch and show him this wonderful opportunity, but tell him when I run the numbers they look thin. Get him excited, give him the facts, ask for his assistance."
- "Could you get the job and phase in the affiliates on a dated schedule?"
- "Work with the new client to get some up-front money."
- "I spent 10 years as a banker on Wall Street. No surprises to your banker!"
- "Bankers are never very knowledgeable or competent."

IN REAL LIFE

On the spot: W. Mark Baty Jr., Accredited Business Services, Cleveland

Some years ago, Baty was running his own metals recycling business and was approached by a big customer. To land the account he needed a load lugger—a specialized truck with a hydraulic lift on the back—costing some $60,000. Approaching the bank for a loan, he knew his overall financial situation was a little shaky: he was in debt to his parents and in-laws, stretched out on his credit cards, and finagling his receivables and payables. "I'd try to collect my receivables in 10 days if I could, and I'd put off my payables for 30 or 60 days, whatever the traffic would bear." But he also knew he could get the account if he had the equipment.

What he decided: "You don't lie to a bank—but I certainly don't believe in offering them more information than they ask for. You don't tell them the loans your parents made to you, the money you've used from credit cards for your business. Playing with your accounts receivable and payable, you definitely don't tell your banker that. You're doing a little bit of creative financing, you're using everything you can to keep your business going."

The upshot: He got the loan, paid it off, and the banker was never the wiser. "You're not lying to anybody, and you're not falsifying records. It's something that's done every day in business."

THE SUPPLIER

What the Respondents Said

65%	TELL WILSON
11%	KEEP MUM
24%	POSTPONE

IN THEIR OWN WORDS . . .

- "Tell him. Then set a payment schedule agreeable to all."
- "Tell him. You can always find eager vendors willing to grant terms. It isn't worth your ill health fending off collectors and repo men."
- "Keep quiet. Once you start to do something, it's ridiculous to vacillate."
- "We kept quiet. We kept one strong credit reference and finessed a number of purchases off that reference."
- "I got several bids in a similar situation, making it clear that a delayed payment schedule was an important decision-making criterion."
- "Postpone. Too many start-ups overextend their expenses."
- "Buy used furniture. If you have to have all the best trappings at this point, you probably should have stayed where you were."
- "I stretched out payments once, and I regret it. Be up-front and negotiate terms, then stay within them."
- "I bought door panels and bridged boxes to make temporary desks."
- "We got the equipment and later went into Chapter 7. Because I guaranteed the payment, the equipment company got everything they were owed."

IN REAL LIFE

On the spot: Kurt Listug, cofounder of Taylor Guitars, Santee, Calif.

Listug was only 21 when he and his partner founded their guitar manufacturing company; the partner was all of 19. "We had no idea what we were getting ourselves into." But they plowed ahead, ordering supplies and materials even though they weren't quite sure how they would pay the vendors. Among the orders: $1,200 worth of rosewood, purchased from C.F. Martin & Co., a venerable and considerably larger guitar manufacturer.

The $1,200 didn't get paid. And didn't get paid. "I remember being so broke," recalls Listug. "We only owed them $1,200—how could we not have it? But we didn't, for a long time." Martin finally gave up, sending the bill to a collection agency. But Listug's company still couldn't pay it, and the creditor too threw in the towel.

What he decided: "Years later, after they had written it off, we started to catch up. We made a list of our bills and added that one to it. Finally we had the money and we paid them—out of the blue. They were shocked by the whole thing."

The upshot: Listug's company now has 35 employees—and a deal with a supplier who gets his wood in India. "We're not buying from Martin now. But we've bought rosewood pretty regularly from them over the years." ❑

HANDS ON

A Manager's Notebook

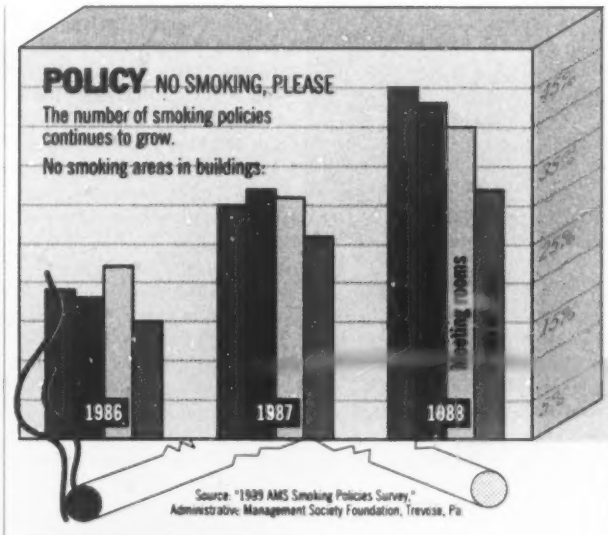
PUBLIC RELATIONS

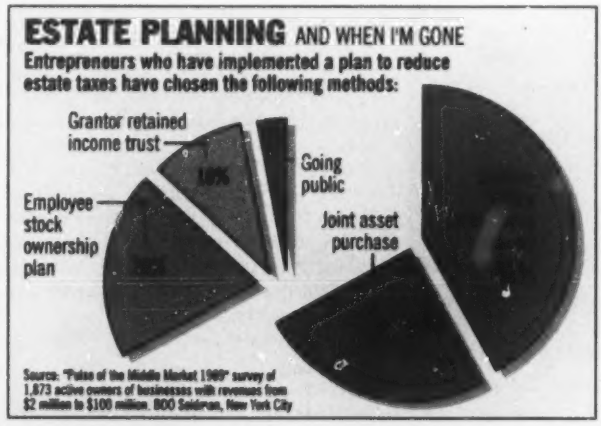
YOU GET WHAT YOU PAY FOR

You have some great information that you want to give your customers or prospects. The experts are lined up, and you've gotten people to donate their time or induced corporate sponsors to pick up the tab so you won't have to charge anything for the seminar you've planned. What's your next step?

Figure out how much you are going to charge. "Unless you charge people something, they're not going to value the information," says Robert F. Donovan, director of marketing for Equimark Corp., in Pittsburgh. Two of its subsidiary banks had put together a string of seminars on marketing and finance featuring professors from The Wharton School and the University of Pittsburgh and, to attract new banking customers, had planned to offer them for free. "People were reluctant to come to the seminars if they were free. Unless it hurt a little bit financially, they didn't think they had value."

After testing various prices, Equimark settled on $25 per session. Attendance exceeded expectations. ❑


POLICY NO SMOKING, PLEASE
The number of smoking policies continues to grow.
No smoking areas in buildings:
1986
1987
1988
Meeting rooms
Source: "1989 AMS Smoking Policies Survey," Administrative Management Society Foundation, Trevose, Pa


ESTATE PLANNING AND WHEN I'M GONE
Entrepreneurs who have implemented a plan to reduce estate taxes have chosen the following methods:
Grantor retained income trust
10%
Going public
Employee stock ownership plan
Joint asset purchase
Source: "Pulse of the Middle Market 1989" survey of 1,673 active owners of businesses with revenues from $2 million to $100 million. BDO Seidman, New York City

COMMUNICATIONS

MAKING A LIST

As companies grow, it isn't easy to stay up on what everyone's doing. Opportunities for teamwork often get lost. Norman Howe, CEO of Norman Howe & Associates, a marketing and consulting business in Pasadena, Calif., has developed a system to combat these kinds of inefficiencies. It's built around a weekly "to do" list.

Every Monday morning, Howe's 26 employees make lists of their tasks or projects. The lists are then shared with supervisors and read at a staff lunch.

A big advantage to operating this way, Howe says, is the team atmosphere it creates. "People have a more complete view of what's happening." Frequently, he notes, individuals suggest new ways to approach problems; if they have time, they even offer to help colleagues in a pinch. The staff lunches usually last about an hour, Howe says. "There's a real value in articulating what you're working on to a group." ❑

MANAGING PEOPLE

SUNNY SIDE UP

When managers of growing companies begin to focus on their own corners of the universe, camaraderie gets lost and communication mix-ups mount. Such was the case at Phoenix Textile Corp., a 56-employee institutional linens distributor based in St. Louis.

To stave off future miscommunications, CEO Palmer Reynolds began hosting monthly breakfasts with the president. She invites five different employees—one from each department—each month to join her at a local restaurant. "I learned how well we thought we were communicating and how much we weren't," Reynolds says.

"People get to know me. I get to know them. They get to know each other and, most important, what each other does," she says. On a recent morning outing, the sales department learned that the production department also had quotas to meet. As a result, the two groups ended a longstanding tug-of-war. Such direct communications have helped contribute to Phoenix's growth from $1.43 million in 1983 to $24 million in 1989. ❑

RESOURCE

GOOD CHEMISTRY

To comply with increasingly stringent EPA and OSHA standards, you may feel like you need a doctorate in chemistry to stay in business. To the rescue comes a cadre of experts from the American Chemical Society with *Chemical Safety Manual for Small Businesses.*

The booklet offers tips on employee training, a glossary of common chemicals and dangerous combinations, safety facility designs, and emergency procedures. It addresses proper handling, and good-housekeeping practices to prevent fires and explosions. The 70-page booklet is a bargain at $5 for one to four copies and $2 for five or more. Send a check to the American Chemical Society, Box 57136, West End Station, Washington DC 20037, or call (800) ACS-5558. For more information on proper hazardous-waste disposal, contact your state environmental protection office or the EPA Resource Conservation Recovery Act Superfund Hotline at (800) 424-9346. ❑

CHARTS: CYNTHIA DAVIS

HANDS ON

MARKETING

SHARE AND SHARE ALIKE

Chances are, outside your selling territory, companies like yours are just as hungry for marketplace information as you are. They aren't your competition, so why not share secrets? That's what Sheila West, CEO of Archery Center International Inc. (ACI) in Monroe, Mich., figured in 1981 when she bought an archery retail shop full of bows and arrows she knew nothing about. "I didn't know who else to call and I needed to know what to order for the upcoming season," admits West, who now runs $3.4-million ACI, an archery equipment distributorship spun off from the retail shop.

Early on, store owners were suspicious of her motives, and hang-ups were common. So she offered them the phone number of a manufacturer who would vouch for her. She conducted short interviews with about 20 shop owners and got a handle on which products were hot sellers, the best quality, and good prospects for the upcoming season. "People who warmed up to the idea found they wanted to know about these things just as much as I did," says West. ❑

CUSTOMER RELATIONS

IN THE CARDS

In a sea of competition, is it possible to remind former and prospective clients that you exist without constantly bugging them? Alan Gaynor, who runs a Manhattan architecture and interior design firm, thinks you can by using cards to keep your work in their minds.

Every time Alan Gaynor & Co. gets a new job or completes one, Gaynor sends out a wedding invitation–size card to 1,200 names on his mailing list. The card names the client and explains what the 21-person firm has been hired to do for it.

"The cards remind people we're still alive," says Gaynor. "What's more, a builder might learn that we also do interior work, or somebody who has used us on interiors can see we're capable of designing buildings.

"We try to do a mailing every two weeks," Gaynor continues. "It's like advertising—you have to keep sending out the message if you want it to sink in." With postage and printing, mailings cost around $500, but Gaynor says it's money well spent. "If we get one job every two years as a result, the mailings pay for themselves." ❑

CUSTOMER SERVICE

LUNCHING IN STYLE

Having trouble contacting customers at the CEO level? Bill Czapar, CEO of Anaheim Custom Extruders Inc., in Anaheim, Calif., waved goodbye to that problem with his California Limo Lunch, a limousine-chauffeured luncheon invitation.

Once a CEO experiences the thrill of being whisked away by limousine to a restaurant, future invitations are rarely refused, giving Czapar regular opportunities to conduct business conversations with no interruptions.

"I'm trying to pave the way so that if there is a problem with our product, we don't get thrown out for an occasional mistake," explains Czapar. He extends the lunch invitations about four times a year to the 20 customers responsible for most of his $3-million annual sales of custom-extruded plastics. ❑

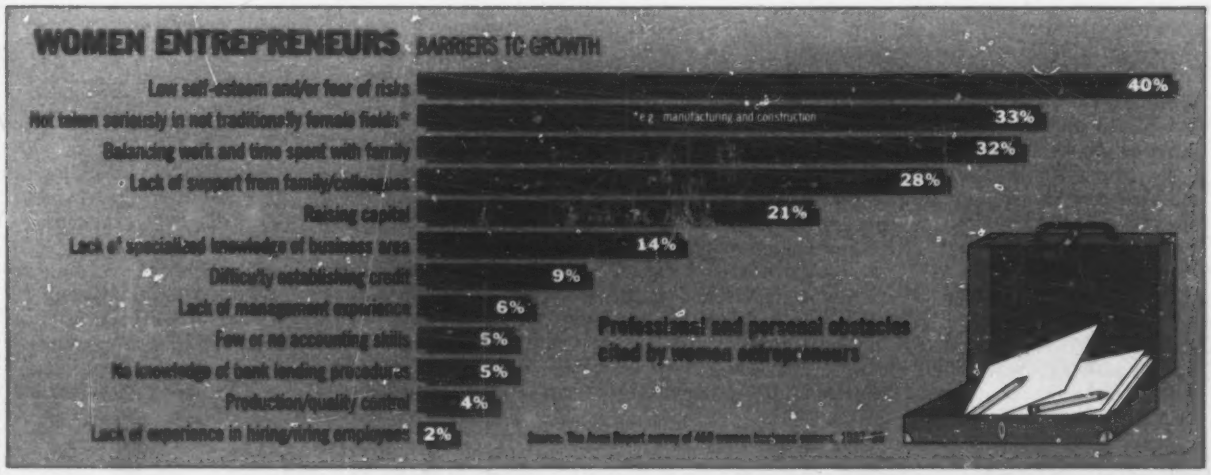
OPERATIONS

STAMP OF APPROVAL

In the press of a busy day, it's difficult for most CEOs to keep in close touch with employees. Harry Seifert, CEO of Winter Gardens Salad Co., a 140-employee salad-manufacturing company in New Oxford, Pa., developed a simple, if slightly impersonal feedback system. He rubber-stamps "Read by Harry" on reports and routes them back to key employees for safekeeping. Time permitting, he augments the stamped acknowledgement with comments in the margins.

"For an employee, the worst thing is to be ignored," says Seifert. "Imagine if you spent all this time working on a report and it got stuffed in a drawer. It would really get [illegible]. That's when quality slips." Since he began using the stamp a year ago, Seifert says the quality of the reports he gets has improved. ❑

HANDS ON (continued)

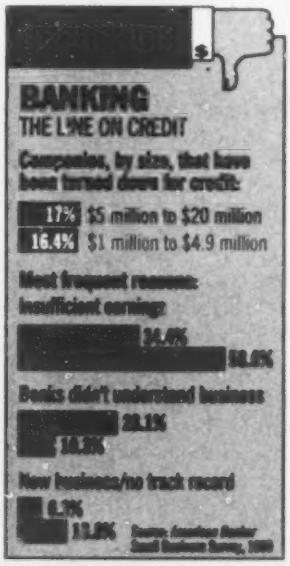

WOMEN ENTREPRENEURS BARRIERS TO GROWTH
Low self-esteem and/or fear of risks 40%
Not taken seriously in not traditionally female fields* 33%
*e.g. manufacturing and construction
Balancing work and time spent with family 32%
Lack of support from family/colleagues 28%
Raising capital 21%
Lack of specialized knowledge of business area 14%
Difficulty establishing credit 9%
Lack of management experience 6%
Few or no accounting skills 5%
No knowledge of bank lending procedures 5%
Production/quality control 4%
Lack of experience in hiring/firing employees 2%
Professional and personal obstacles cited by women entrepreneurs

HANDS ON

INTERNATIONAL

COOKING UP SALES

When you're selling to a foreign prospect, the pomp and circumstance of formal meetings may get in the way of closing a deal.



After 20 years of selling internationally, Wayne Cooper decided to balance the formality with an evening of casual entertaining.

It began when Cooper, CEO of 13-year-old Arcon Manufacturing Inc., in Charlotte, N.C., invited a delegation visiting from China over to his ranch to cook its favorite dishes. "They had been on the road for a month and missed their native cuisine," explains Cooper, who then sold them a grain-storage system the next day after a year and a half of meetings.

To keep things simple, the five- to six-person delegations cook just for themselves, Cooper, and his wife, Judy. Business is not discussed. "In meetings prior to the dinner, they feel like you are trying to put one over on them and are suspicious; afterward they want my advice," claims Cooper, who now turns his kitchen over to visiting chefs once a month. ❑

COMMUNITY RELATIONS

EYES ON THE PRIZE

How do you help solve America's education crisis and get a payback for your company? Jack and Shelly Finnerty, owners of The Pizza Store & More, in Laguna Hills, Calif., do it by rewarding students at a local elementary school.

The Finnertys supply prize certificates for school-sponsored functions, such as paper drives and book-report contests. The prizes happen to be the house specialty, pizza. The pizza may be free, but when students cash in their certificates, soft-drink and other sales also ring up at the restaurant.

"It's inexpensive compared with the payback of motivating students and generating goodwill for our business in the community," says Jack, who figures he's developing a devoted clientele in the process. "As these kids grow up, they'll like my pizza and want to spend their allowances here." ❑

SALES

SAIL AWAY

A vacation giveaway is a classic sales incentive, but sales-quota deadlines can encourage last-minute sales and produce more losers than winners. Frank Garofalo, founder of Numismatic Investments of New England, in Salem, N.H., has found a better way. At Numismatic, contestants take as long as they like to generate $50,000 of rare-coin sales, at which time an $800 travel credit is awarded.

Winners appreciate the flexibility of choosing when, where, and with whom they can spend their vacation. And the costs work out about the same as the luxury all-expenses-paid vacation normally awarded.

Since starting the incentive program three years ago, 30% of Garofalo's 2,000 sales representatives have collected. He claims his improved plan helps distinguish Numismatic from a slew of well-established competitors, all vying for the reps' attention.

"People spend so many hours working at their job that making the vacation hours is much more special, and they remember Numismatic in that light," says Garofalo. "You should see our postcard collection." ❑

ON THE CHEAP

MIGHTY MODEMS *By Cary Lu*

After a printer, perhaps the most common accessory for a personal computer is a modem. Modems can connect your computer through telephone lines to services ranging from electronic mail to stock reports and airline schedules. For general business use, a 2,400-bits-per-second (BPS) modem is your best bet. Slower 1,200-BPS modems aren't much cheaper, and the industry hasn't fully standardized faster modems.

Hayes Microcomputer Products Inc. and other manufacturers usually sell 2,400-BPS modems for $400 to $600. But you can buy a Hayes-compatible 2,400-BPS modem for less than a third of the price. Would a less expensive modem work for you? Probably. Here are a few shopping tips to keep in mind:

■ Some modems handle phone-line noise better than others. More expensive modems don't necessarily perform better. To play it safe, if you think you have noisy phone lines, buy a modem with a 30-day money-back guarantee to see if it can handle the noise.

■ Error-correction protocols can reduce or eliminate some problems caused by phone-line noise and other glitches, but both sending and receiving modems have to agree on how to correct errors. Some error-correction protocols are managed by software that can control any modem. But the most effective error-correction method in wide use—called MNP level 5—must be built into a modem. It adds $50 to $100 to the modem's price, but it includes data compression, which enables a 2,400-BPS modem to transmit information at up to 4,800 BPS. Aside from cost, the only problem with MNP is that many modems don't have it. An MNP modem will work when connected to a plain modem, but you can't use the MNP features.

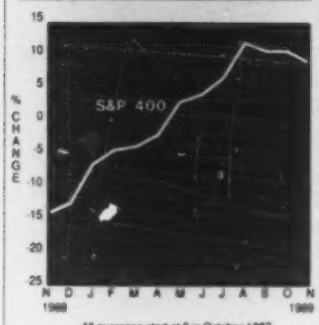
■ In spite of the higher cost (about $10 to $25 more), extra cable, and need for a bit more desk space, I suggest buying an external rather than an internal modem because it will work with your present computer as well as any you might buy later.

■ For general business applications, I recommend the MNP modems from Practical Peripherals Inc. (Westlake Village, Calif.), which typically sell for $200 to $250. For infrequent use, a plain 2,400-BPS modem that sells for $100 to $150 should work fine. I recommend Boston's Zoom Telephonics Inc., which offers a money-back guarantee. Look for Zoom's latest design, which has an "R" suffix in the model number. ❑

Reported by Leslie Brokaw, Paul B. Brown, Teri Lammers, Martha E. Mangelsdorf, and Bruce G. Posner

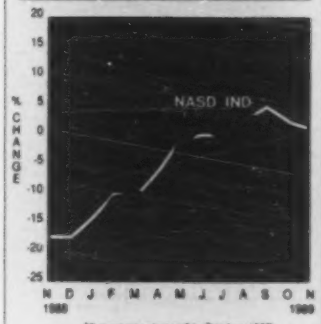
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



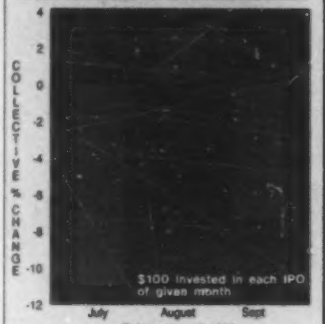
All averages start at 0 in October 1987.

INC. vs. SPECULATIVE AVERAGES



All averages start at 0 in October 1987.

IPOs IN THE AFTERMARKET



INITIAL PUBLIC OFFERINGS: OCTOBER 1989

O-T-C sym.	Company	Business/product	Offering Size ($ mil.)	Offering Price	First aftermarket bid	Underwriter
ALII	**Allied Capital Corp. II**	Closed-end fund	82.50	15.00	15	Shearson
AGAWU	**A.G. Automotive Warehouses**	Operates discount auto-parts center	6.75	6.00[b]	9½	D. H. Blair
CBLE	**Cable Applications**	Installs voice data systs.	3.00	5.00[c]	8⅜	R. H. Damon
CAER	**Caere**	Mfrs. information recognition software	22.50	12.00	16⅜	Alex. Brown
DGII	**Digi International**	Mfrs. computer networking hardware & software	13.00	10.00	10⅞	William Blair
EBPI	**Employee Benefit Plans**	Provides managed health-care svcs.	30.00	12.00	14¼	Dean Witter
EOG[a]	**Enron Oil & Gas**	Provides energy exploration svcs.	187.50	18.75	19½	First Boston
EXBT	**Exabyte**	Mfrs. computer storage systs.	28.50	10.00	12⅛	Goldman Sachs
FMI[a]	**Franklin Multi-Income Trust**	Closed-end trust	50.00	10.00	10	Dean Witter
HQOIU	**HQ Office International**	Operates discount office-supply stores	5.70	4.75[d]	5⅜	D. H. Blair
KNOW	**Knowledgeware**	Develops computer software	37.50	12.50	14	Montgomery
NRGN	**Neurogen**	Mfrs. neurological disorder treatment products	7.20	6.00	7⅛	Allen & Co.
RLLY	**Rally's**	Operates restaurant chain	26.20	15.00	17	Alex. Brown
ROBC	**Robec**	Sells microcomputers	14.18	10.50	10½	Robinson-Humphrey
STSN	**Sierra Tucson Cos.**	Operates substance-abuse facilities	30.00	12.00	12¾	Oppenheimer

Initial public offerings sold at $1 or less not included. First aftermarket bid is approximate. [a] trading on NYSE; [b] units of 4 common + 4 warrants; [c] units of 2 common + 1 warrant; [d] units of 3 common + 3 warrants. Offering data source: *Going Public: The IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

STREET TALK Who woulda thunk it? Hardly two years after capitalism's big fall comes socialism's bigger fall! Certainly not holders of Lockheed, Northrop, United Technologies, McDonnell Douglas, and other blue-chip defense stocks. But well they ought to have started dumping as they did in November, when it suddenly dawned on Wall Street that disarmament might be for real. A few years ago, renowned hawk Herman Kahn referred to similarly painful but inevitable admissions as "thinking about the unthinkable." He meant atomic holocaust, however, not world peace.

Sure, Martin Marietta, Raytheon, Litton Industries, General Dynamics, and their ilk dropped about 10% on a single day, but in late November, with the DJI still pressing toward 2,700, apparently the true impact had yet to hit. What, for example, would happen in California, where 8% of the private economy is related to defense purchases? And what is to come of commerce in Massachusetts, another state with a population of defense contractors? There, insiders say, banks are sitting on loans of which some 30% already are in trouble, the Bank of New England alone facing over $1 billion worth of bad loans. Maybe Route 128 and Silicon Valley are destined to become the oil patches and Rustbelts of the new decade. But surely, after these many years of spending trillions on the Cold War, our economy should be able to mend itself in a sudden thaw.

—Robert A. Mamis

COPYRIGHT © 1990 BY GOLDHIRSH GROUP, INC. All rights reserved. Editorial and executive offices at 38 Commercial Wharf, Boston, MA 02110. INC. (ISSN 0162-8968) is published monthly by Inc. Publishing Company, 38 Commercial Wharf, Boston, MA 02110. Subscription rate for U.S. and Possessions, 12 issues $25. All subscription correspondence should be addressed to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Please allow at least six weeks for change of address. Include your old address as well as new, and enclose if possible an address label from a recent issue. Second class postage paid at Boston, MA, and additional mailing offices. Postage paid at Mississauga, Ontario. POSTMASTER: Send address changes to INC. magazine, P.O. Box 54129, Boulder, CO 80322-4129. Material in this publication must not be stored or reproduced in any form without permission. Requests for permission should be directed to Permissions Coordinator, INC., 38 Commercial Wharf, Boston, MA 02110. Inc. is a registered trademark of Goldhirsh Group, Inc.

JANUARY 1990 VOL. 12 NO. 1